

Message Text

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FM AMEMBASSY SANTO DOMINGO

TO SECSTATE WASHDC 2244

INFO AMEMBASSY KINGSTON

AMEMBASSY GEORGETOWN

AMEMBASSY PORT AU PRINCE

AMEMBASSY CANBERRA

AMEMBASSY CONAKRY

AMCONSUL PARAMARIBO

C O N F I D E N T I A L SANTO DOMINGO 5065

LIMDIS

E.O. 11652: GDS

TAGS: EMIN, EFIN, EIND, DR

SUBJECT: GODR REACHES BAUXITE SETTLEMENT WITH ALCOA

1. ACCORDING TO ALCOA REPRESENTATIVE, HUGHSON, THE GODR AND ALCOA HAVE REACHED A SETTLEMENT COVERING INCOME TAXES, DEPLETION ALLOWANCE, ROYALTY, AND SUPPLEMENTARY ROYALTY FOR A PERIOD THROUGH SEPTEMBER 30, 1975. THE AGREEMENT ALSO CONTAINS A QUOTE MOST FAVORED NATION UNQUOTE CLAUSE WHICH STIPULATES THAT SHOULD JAMAICA AND ALCOA (NOTE THE AGREEMENT DOES NOT COVER OTHER ALUMINUM COMPANIES) COME TO AN OVERALL ARRANGEMENT WHICH WOULD AFFORD JAMAICA MORE INCOME THAN THE DOMINICAN REPUBLIC, A SIMILAR AGREEMENT WOULD BE MADE BETWEEN ALCOA AND THE DOMINICAN REPUBLIC RETROACTIVE TO APRIL 1, 1974.

2. UNDER THE NEW AGREEMENT, ALCOA'S CORPORATE INCOME TAX WILL BE INCREASED FROM 38 PERCENT TO 40 PERCENT, WITH ALCOA'S DEPLETION ALLOWANCE ELIMINATED. HERETOFORE, ALCOA COULD WRITE OFF 14 PERCENT OF THE VALUE OF BAUXITE MINED FOR QUOTE
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MINE DEPLETION UNQUOTE EVEN THOUGH THE STATE OWNS ALL MINERALS

IN THE DOMINICAN REPUBLIC. ANOTHER CHANGE IN THE INCOME TAX FORMULA IS THAT ALCOA'S INCOME WILL BE RECALCULATED EACH MONTH INSTEAD OF ONCE A YEAR.

3. ROYALTY PAYMENTS TO THE GODR WILL BE INCREASED FROM \$0.25 TO \$0.55 PER METRIC TON OF BONE DRY BAUXITE.

4. THE NEW SUPPLEMENTARY ROYALTY BASED ON THE U.S. PRICE OF ALUMINUM INGOT WILL BE 5 1/2 PERCENT INSTEAD OF THE QUOTE JAMAICAN FORMULA UNQUOTE OF 7 1/2 PERCENT. SINCE IT TAKES 4.8 TONS OF DOMINICAN BAUXITE COMPARED TO 4.4 TONS OF JAMAICAN TO MAKE ONE TON OF ALUMINUM, A 4.8 FACTOR IS PLUGGED INTO THE DOMINICAN FORMULA FOR CALCULATING THE SUPPLEMENTARY ROYALTY.

5. THE FORMULA FOR THE SUPPLEMENTARY ROYALTY WOULD, THEREFORE, RUN AS FOLLOWS: ASSUMING THE U.S. PRICE OF 99.5 PERCENT PURE UNALLOYED ALUMINUM TO BE \$0.32 PER CPOUND OR \$640 PER SHORT TON, THIS \$640 IS MULTIPLIED BY 5.5 PERCENT AND DIVIDED BY THE 4.8 FACTOR TO PRODUCE A SUPPLEMENTARY ROYALTY FIGURE OF \$7.33 PER SHORT TON. HOWEVER, ALCOA'S TAXES AND OTHER ROYALTIES ARE DEDUCTIBLE FROM THE \$7.33. WITH THE FORMULA AT 4.0 PERCENT, FOR EXAMPLE, INSTEAD OF 5 1/2 PERCENT, THE FORMULA WOULD HAVE GENERATED NO ADDITIONAL REVENUE FOR THE GODR.)

6. IT IS ESTIMATED THAT ON THE BASIS OF ALCOA'S SHIPPING 1.2 MILLION TONS OF BAUXITE ANNUALLY AND THE INGOT PRICE OF ALUMINUM'S BEING \$0.32 PER POUND, THE GODR UNDER THE REVISED AGREEMENT ON INCOME TAXES, ABOLITION OF THE DEPLETION ALLOWANCE, AND THE REGULAR ROYALTY, WILL INCREASE ITS ANNUAL REVENUE FROM \$3.8 MILLION TO \$5.8 MILLION.

7. UNDER THE SAME ASSUMPTION REGARDING PRODUCTION AND PRICE, THE NEW SUPPLEMENTARY ROYALTY WITH THE 5 1/2 PERCENT FORMULA WILL PRODUCE AN ADDITIONAL ANNUAL REVENUE OF \$1.1 MILLION.

8. THESE ESTIMATES OF \$3.1 MILLION IN ADDITIONAL REVENUES ARE QUITE CONSERVATIVE. WITH ALUMINUM GOING UP \$0.07 OR \$0.08 PER POUND, THE GODR WILL REALIZE ANOTHER \$2 TO \$3 MILLION IN ANNUAL

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REVENUE.

9. SINCE THE TAX STRUCTURES IN THE VARIOUS BAUXITE-PRODUCING COUNTRIES OF THE CARIBBEAN AREA ARE NOT THE SAME, IT IS DIFFICULT TO MAKE A VERY PRECISE COMPARISON. HUGHSON ESTIMAZ S, HOWEVER, THAT UNDER THIS NEW AGREEMENT THE DOMINICAN REPUBLIC WILL NOT BE REALIZING QUITE AS MUCH REVENUE PER

POUND OF ALUMINUM AS JAMAICA IS UNDER THE NEW ARRANGEMENT IT HAS MADE WITH KAISER. ON THE OTHER HAND, HUGHSON STATES THAT BEFORE THE RECENT ROUNDS OF BAUXITE NEGOTIATIONS, THE GODR WAS DOING BETTER THAN JAMAICA, OR ANY OTHER COUNTRY IN THE CARIBBEAN. HIGHSON ALSO STATES THAT WITH ALUMINUM AT \$0.32 PER POUND, ALCOA'S RATE OF RETURN ON ITS INVESTMENTS HAS NOT REPEAT NOT BEEN VERY LARGE, FLUCTUATING BETWEEN 7 AND 12 PERCENT.

10. GODR OFFICIALS AT ONE TIME OR ANOTHER HAD ALSO ASKED ABOUT ALCOA'S INSTALLING AN ALUMINUM PROCESSING PLANT WITHIN THE COUNTRY. (THERE IS NO PROCESSING OF THE ORE NOW.) WITH THE KNOWN ORE RESERVES LASTING NO MORE THAN 20 YEARS, HOWEVER, ALCOA HAS RESISTED THIS PROPOSAL.
AXELROD

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